

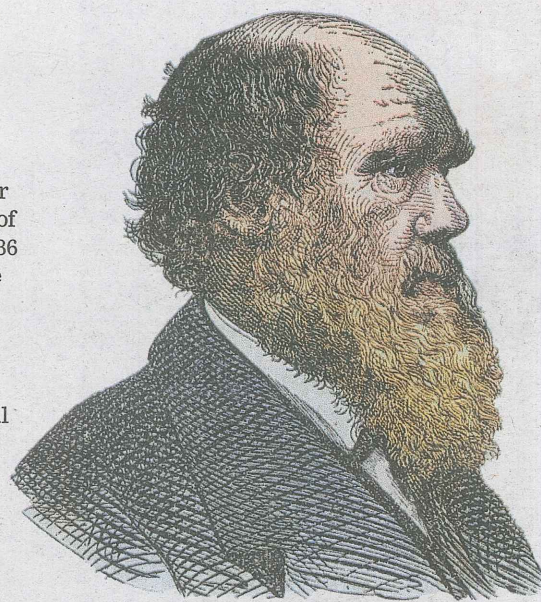
Charles Darwin and the Sensex

How the cold logic of the theory of survival of the fittest works in the corporate realm too.

by Harshad Patwardhan

What is common between Ballarpur Industries, Bombay Dyeing, Hindustan Motors, Mukand Iron and Premier Auto? These stocks were proud members of the first batch of Sensex of 1986. But after 36 years, only seven (less than 25%) from the original list have survived in the index.

The metamorphosis of the Sensex (or any stock index for that matter) over the years is a fascinating tale as also a reminder of how Charles Darwin's 'Survival of the Fittest' theory also works in the corporate arena. With the passage of time, we find a significant churn in the top echelon of the bluest of the bluechip corporates signifying shifts in relative salience.



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Disruptive impact of 1990s

The earlier glacial pace of change in the corporate world was disrupted and accelerated by the momentous political and economic events (both in India and abroad) of the late eighties and early nineties. As a result, while there was no change in the Sensex constituents between 1986 and 1996, there were as many as 20 changes between 1996 and 2006.

Companies that exited the Sensex didn't exactly become extinct the way dinosaurs did when an asteroid was supposed to have hit the earth. A few of the companies waned gradually with the relative decline of their industries such as textiles and paper. A few others faded away as they failed to adapt to changing circumstances and lost out to the new entrants in sectors such as automobiles, metals and pharmaceuticals.

Adapt to survive & prosper

Of the seven survivors from the original batch of 1986, only five companies were continuously present (based on decadal data points) in the Sensex. These were, Hindustan Unilever, ITC, Larsen & Toubro, Reliance and Tata Steel. The other two—Mahindra & Mahindra and Nestle India—exited and re-entered.

The companies that survived and in fact prospered managed to adapt to changing circumstances. They reinvented themselves to continue their dominance of large growing industries. A few of these stuck to their core markets, adding new product lines (organic plus through acquisitions) to consolidate their clout. A few others chose diversification (both related and unrelated) to establish influence in newer sectors while continuing to hold leadership position in older businesses.

The new entrants

Over the years, new leading companies from sectors such as IT services, telecom, new age private sector banks, automobiles

and generic pharmaceutical managed to gain entry into Sensex. For instance, by 2006, there were as many as four IT companies (Infosys, TCS, Wipro and Satyam Computers) in the Sensex from zero a decade ago. Also, by 2006, there were three generic pharma companies (Cipla, Dr. Reddy's and Ranbaxy) in the Sensex. In 1996, there was none.

In addition, following their new listings, many leading state owned companies (NTPC, Power Grid and Coal India) in large sectors also broke into Sensex over the years due to their sheer size.

What it means for investors

The odds of sustaining relative dominance over long periods in the corporate jungle are rather small. It is important to recognize that several factors such as technology, changes in government policies and socio-economic changes influence and shape relative prospects of dif-

ferent industries. Many of these factors are often beyond the control of individual companies and industry bodies.

A company that may appear invincible today could fade away (in a relative sense) unless it adapts and reinvents continuously. Every company goes through cycles, and it requires exceptional strength, resilience and adaptability in the business and management to stand the test of time.

While index investing is passive, the index itself is anything but passive. It is designed to follow the same ruthless logic of evolution that Darwin decoded way back in the nineteenth century.



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The changing face of the Sensex

1986 (JAN)	1996 (MARCH)	2006 (MARCH)	2016 (MARCH)	2022 (MARCH)
ACC	ACC	ACC	Adani Ports	Asian Paints
Ballarpur Industries	Aditya Birla Nuvo	Ambuja Cements	Asian Paints	Axis Bank
Bharat Forge	Ballarpur Industries	Bajaj Auto	Axis Bank	Bajaj Finserv
Bombay Dyeing	Bharat Forge	BHEL	Bajaj Auto	Bajaj Finance
Ceat	Bombay Dyeing	Bharti Airtel	Bharti Airtel	Bharti Airtel
Century Textiles	Ceat	Cipla	BHEL	Dr Reddys Labs
Grasim	Century Textiles	Dr Reddy's Labs	Cipla	HCL Techno
Great Eastern Shipping	Cummins India	Grasim Industries	Coal India	HDFC
GSK	Futura Polyesters	HDFC Bank	Dr Reddy's Labs	HDFC Bank
Guj. State Fertilizers	Glaxosmithkline	Hero Motocorp	Gail	Hindustan Unilever
Hindustan Aluminium	Grasim Industries	Hindalco Industries	HDFC	ICICI Bank
Hindustan Lever	Great Eastern Shipping	Hindustan Unilever	HDFC Bank	Indusind Bnk
Hindustan Motors	Gujarat State Fertilizers & Chem	HDFC	Hero Motocorp	Infosys
Indian Hotels	Hindalco Industries	ICICI Bank	Hindustan Unilever	ITC
Indian Organics	Hindustan Motors	Infosys	ICICI Bank	Kotak Bank
Indian Rayon	Hindustan Unilever	ITC	Infosys	L&T
ITC	Indian Hotels Co	Larsen & Toubro	ITC	Mahindra & Mahindra
Kirloskar Cummins	ITC	Maruti Suzuki India	Larsen & Toubro	Maruti Suzuki
Larsen & Toubro	Larsen & Toubro	NTPC	Lupin	Nestle India
Mahindra & Mahindra	Mahindra & Mahindra	ONGC	Mahindra & Mahindra	NTPC
Mukand Iron	Mukand	Ranbaxy Laboratories	Maruti Suzuki India	Power Grid
Nestle	Nestle India	Reliance Industries	NTPC	Reliance Industries
Peico Electronics	Philips Electronics India	Reliance Infrastructure	ONGC	State Bank Of India
Premier Auto	Premier	Satyam Computer	Reliance Industries	Sun Pharma.
Reliance Industries	Reliance Industries	State Bank Of India	State Bank Of India	Tata Steel
Siemens	Siemens	TCS	Sun Pharma.	TCS
Tata Motors	Tata Motors	Tata Motors	Tata Motors	Tech Mahindra
Tata Power	Tata Power	Tata Power	Tata Steel	Titan
Tata Steel	Tata Steel	Tata Steel	TCS	Ultratech Cement
Voltas	Voltas	Wipro	Wipro	Wipro

SOURCE: SEBI, BSE, MOSL, BUSINESS INSIDER.